City of Miami Springs
Police Retirement Plan
Overview & Options

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COLLECTIVE BARGAINING WORK PRODUCT

Big Picture

- Miami Springs, like many Florida cities, is facing extreme challenges of
  - declining revenues and
  - increasing costs
- One of the largest and fastest growing costs facing the City is the cost of its employee pension plans
- Local government pension plans cost more than anyone expected

Required City Pension Contribution 3 Years Ago (FY2009-10)

$275,789   (10.59% of payroll)

Required City Pension Contribution 2 Years Ago (FY2010-11)

$426,001 (15.30% of payroll)

year over year increase: $150,212

Required City Pension Contribution Last Year (FY2011-12)

$517,457   (17.0% of payroll)

year over year increase: $91,456

Required City Pension Contribution This Year (FY2012-13)

$613,192   (22.71% of payroll)

year over year increase: $95,735

Required City Pension Contribution Next Year (FY2013-14)

$679,726   (25.91% of payroll)

year over year increase: $66,534

Required Employee Pension Contributions

2011-12:	16.9%
2012-13:	16.0%*
2013-14:	18.6%*

* After using accumulated excess premium tax monies to buy down the employee contribution

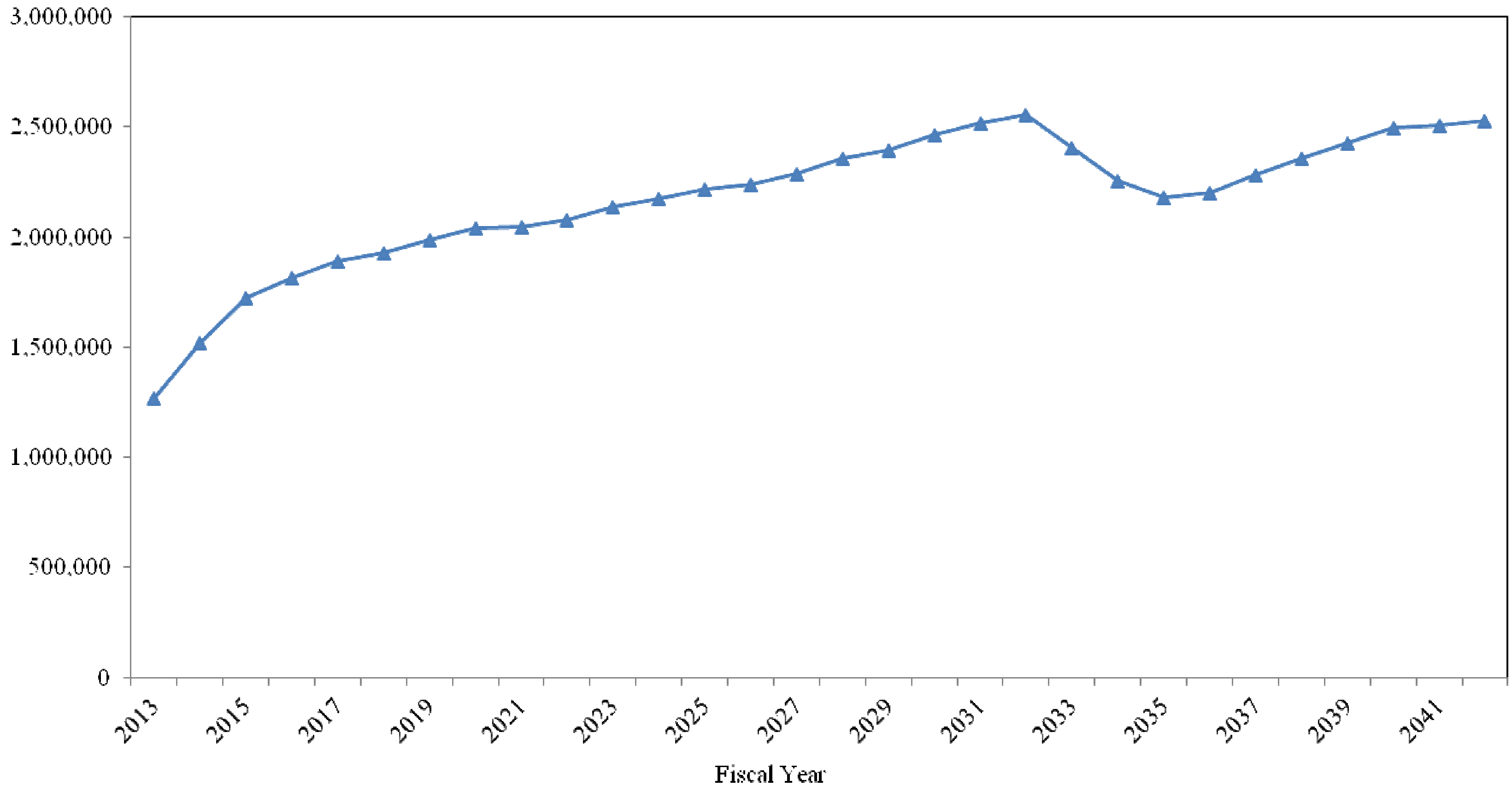
City Police Pension Contributions FY 2006-2013

FYE 9/30	City Contribution
2013	$ 613,192
2012	$ 517,457
2011	$ 426,001
2010	$ 307,956
2009	$ 302,448
2008	$ 305,103
2007	$ 294,086
2006	$ 112,800
% Increase	+ 443%

Average City Pension Cost
Per Active Police Officer
(FY 2012-13)

$ 16,136

Projected Future Police Pension Costs (if no changes)



Pension Cost Components

1. **Normal Cost –** annual cost of current benefits, without unfunded actuarial accrued liability (UAAL) payment

2. UAAL Amortization Payment

[UAAL = assets minus liabilities = debt]

- Actuarial losses
- Plan improvements
- Changes in actuarial assumptions & methods

Cost Components – FY 2012-13

Normal Cost	UAAL Amort. Payment
$593,638	$324,245

Unfundeded Actuarial Accrued Liability 2009 - 2011

9/30/09:	**$126,169**
9/30/10:	**$952,656**
9/30/11:	**$3,690,644**

Why Have Unfunded Liabilities Grown?

The unfunded actuarial accrued liability (UAAL) increases as a result of:

- Actuarial losses
- Assumption & Method Changes
- Benefit Enhancements

Miami Springs Police Pension plan had <u>actuarial losses in 8 of the last 11 years</u>

2010-11 Actuarial Loss

$2 million

(mainly due to poor investment performance)

2011-12 Actuarial Loss

$600,000 – $700,000

(mainly due to prior years' poor investment performance)

Pension Legacy Cost - The UAAL Issue

- The unfunded actuarial accrued liability (UAAL) as of 10/1/11 was $3.69 million
- (total assets = $18.5million)

- **By law the City is responsible for funding the UAAL** – even if employees are transferred to other employers, and even if the current pension plan is closed, frozen or terminated.

Impact of the 2008 Market Meltdown

- Most public pension plans had investment losses of between 10% and 15% for the year ending 9/30/08.
- The Miami Springs police pension plan had investment losses of -12.7% for the year ending 9/30/08

What does this mean for the Miami Springs police pension plan?

5 Year Smoothing - Example

- Assumed rate of return = 7.7% (Miami Springs Police Plan)
- Actual return = minus 12.7%
- Actuarial loss = minus 20.4%

  20.4/5 = 4.08
- Minus 4.08% recognized each year for the next 5 years
- Result: City contributions will likely increase

  unless actual return exceeds 11.78% (7.7% + 4.08%)

  (2010-11 investment return: minus 3.6%)

Actual Investment Return (as of 9/30/11)

Last 5 Years: 0.0%

Last 10 Years: 3.5%

Last 15 Years: 6.4%

Since 1978: 8.8%

Unrecognized Investment Losses as of 10/1/11

$3.8 million

- will be recognized over next 5 years
- City contribution rate will increase approx. 14.6% (to 37.3%) if no offsetting gains

Funded Percentage (10/1/11)

Funded Percentage = Actuarial Value of Assets / Actuarial Accrued Liability

- Police Plan: 85.8%

FSU Collins Institute Report

November 2011

- Analyzed pension plans in Florida's 100 largest cities
- Assigned letter grades based on plan funded ratios and other indicators:
  - A – 90% or better
  - B – 80% to 90%
  - C – 70% to 80%
  - D – 60% to 70%
  - F – below 60%

Key Benefit Provisions – Police Plan

- **Formula:** 3.50 % x AFC x yrs of service

  [Ch. 185: 2.0%; FRS: 3.0%]
- **Normal retirement:** age 55 w/10 yrs service or "20 and out" (20 yrs of service regardless of age)
- [Ch. 185: age 55 w/10 yrs or age 52 w/25 yrs]

  [FRS: age 60 w/8 yrs service; or 30 yrs service regardless of age]
- **Compensation:** basic earnings, excluding overtime and leave payouts

  [Ch. 185: total earnings, but OT may be excluded; FRS: total earnings with limits on leave payouts]
- **Average Final Comp: best 3 consecutive years** of service

  [Ch. 185: best 5 of last 10 yrs; FRS = highest 8 years]

Key Provisions – Police Plan (Cont.)

- **Deferred Retirement Option Plan (DROP):** 5 year maximum DROP period (shorter DROP period for members who enter DROP later); DROP interest = actual plan investment return

  [FRS = 5 year DROP; 1.3% interest]

- **Employee contribution: 16%** of compensation

  [after buy-down using excess premium tax money – but will likely increase 10/1/13]

  [FRS = 3% employee contribution]

Ch. 185 Premium Taxes

- Chapter 185, F.S. provides for a rebate of the state excise tax on casualty insurance premiums to cities that have police pension plans.
- The premium tax monies must be used exclusively for police pensions, and the local pension plan must comply with the requirements of Chapter 185.
- Last year the City received $94,520 in Ch. 185 premium taxes.

Ch. 185 Premium Taxes

Before 8/14/12 Naples Letter

- Premium tax revenues above 1998 amount must be used first to meet Ch. 185 minimum benefits; then for “extra benefits”
- Premium tax revenues that may be used to reduce City annual required contribution = “adjusted base” or “frozen amount”
- Premium tax revenues in excess of “frozen amount” must be used for extra benefits once minimum benefits are met (or held in reserve)
- If any benefit is reduced below 1999 level, plan is not eligible for future premium taxes

Ch. 185 Premium Taxes

<u>After 8/14/12 Naples Letter</u>

- If plan meets Ch. 185 minimum benefits it is eligible for premium taxes
- Benefits may be reduced below 1999 level without loss of premium taxes
- Benefits may be reduced below Ch. 185 minimums if value of benefits equals or exceeds “additional premium taxes” (amount in excess of 1998 amount).

What Are the Options to Reduce City Pension Costs?

- No “silver bullet”
- Keep current City pension plan, but:
    - Reduce benefits, and/or
    - Increase employee contributions
- Terminate, freeze or close current pension pension plan, and set up lower cost plan

Pension Reform Options

- Join Florida Retirement System (FRS)
- Set up Defined Contribution (DC) plan
- Keep current plan but:
  - Reduce benefits for <u>new hires only</u>; or
  - Reduce future benefits for <u>current and future employees</u>
- Set up "Hybrid" Plan (shared risk and cost)

Key Concepts

- **“Close”** – existing plan closed to new members; current members stay in existing plan until they retire or leave the city; future employees join new plan.
- **“Freeze”** - accrued benefits of current employees in existing plan “frozen” and paid out at retirement; all current and future employees join new plan.
- **“Terminate”** – existing plan liquidated; accrued benefits paid out to plan members; City responsible for any deficit; all current and future employees join new plan.

Legal Guidelines

- Changes in retirement benefits and employee contributions are mandatory subjects of collective bargaining.
- Accrued pension benefits (benefits earned in the past) cannot be reduced or taken away.
- Future benefits can be reduced for current employees who have not reached normal retirement status.
- City is ultimately responsible for unfunded pension liabilities, even if current plans are closed, frozen or terminated.

Join FRS for New Hires

Advantages

- Reduced cost over time (FRS rates are going up)
- Standardized FRS benefits
- 3% employee contribution
- Portability – easier for City to attract employees from other FRS agencies
- Gets City out of pension business (eventually)

Disadvantages

- No immediate savings -- may take many years to achieve cost savings; City still must pay off current plan liabilities
- Lose premium tax revenues immediately
- Portability – City employees can move to another FRS employer and take their pension with them
- State legislature sets benefits and contributions

Join FRS for All Employees

Advantages

- Reduced city cost in shorter time (but FRS rates are going up)
- Standardized FRS benefits
- 3% employee contribution
- Portability – easier for City to attract employees from other FRS agencies
- Gets City out of pension business (eventually)

Disadvantages

- Current City pension plan must be terminated or frozen
- City still must pay off current plan liabilities
- Lose premium tax revenues immediately
- Portability – City employees can move to another FRS employer and take their pension with them
- State legislature sets benefits and contributions

Reduce Benefits for New Hires (2 Tier Plan)

Advantages

- Reduced cost over time
- Current employees keep current benefits
- Can be designed to keep premium tax revenues

Disadvantages

- No immediate savings -- may take many years to achieve cost savings
- Creates lower level of benefits for new hires
- New hires can be expected to press for greater benefits
- City stays in pension business

Reduce Future Benefits for All Employees

Advantages

- Immediate cost savings
- Reduces UAAL
- Same benefits for all employees going forward
- Can be designed to keep premium tax revenues

Disadvantages

- Reduces future benefits for current employees (employees keep what they have already earned)
- City stays in pension business

Defined Contribution Plan

Advantages

- Predictable employer costs
- City does not bear investment risk
- Appeals to younger, mobile employees
- Portability – DC account balance may be "rolled over" to an IRA or other retirement plan
- Lower admin. Costs
- No actuarial liabilities

Disadvantages

- Employees bear investment risk
- Possible that employee will outlive benefits
- No inflation protection (COLA)
- Portability – employees can easily move to another employer and take their DC balance with them
- Loss of premium tax revenues

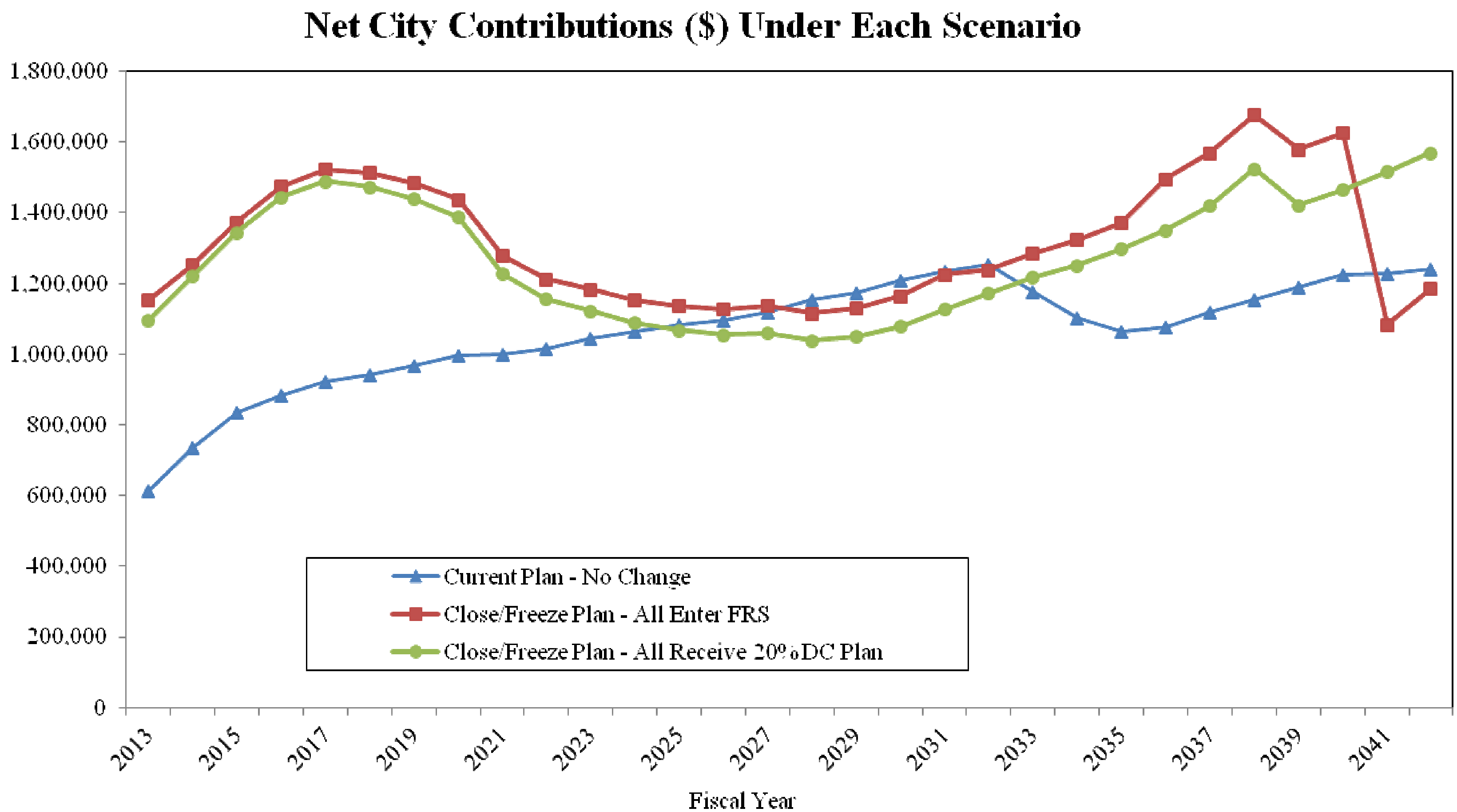
Hybrid Plan

- Hybrid plan results in sharing of risk and cost between the City and employees
- Variable Benefit – benefit not fixed or guaranteed – automatically adjusts as City contribution increases or decreases.
- DC plan on top of DB plan
  - ➢ DB plan provides guaranteed benefit
  - ➢ DC plan reduces risk and cost to City

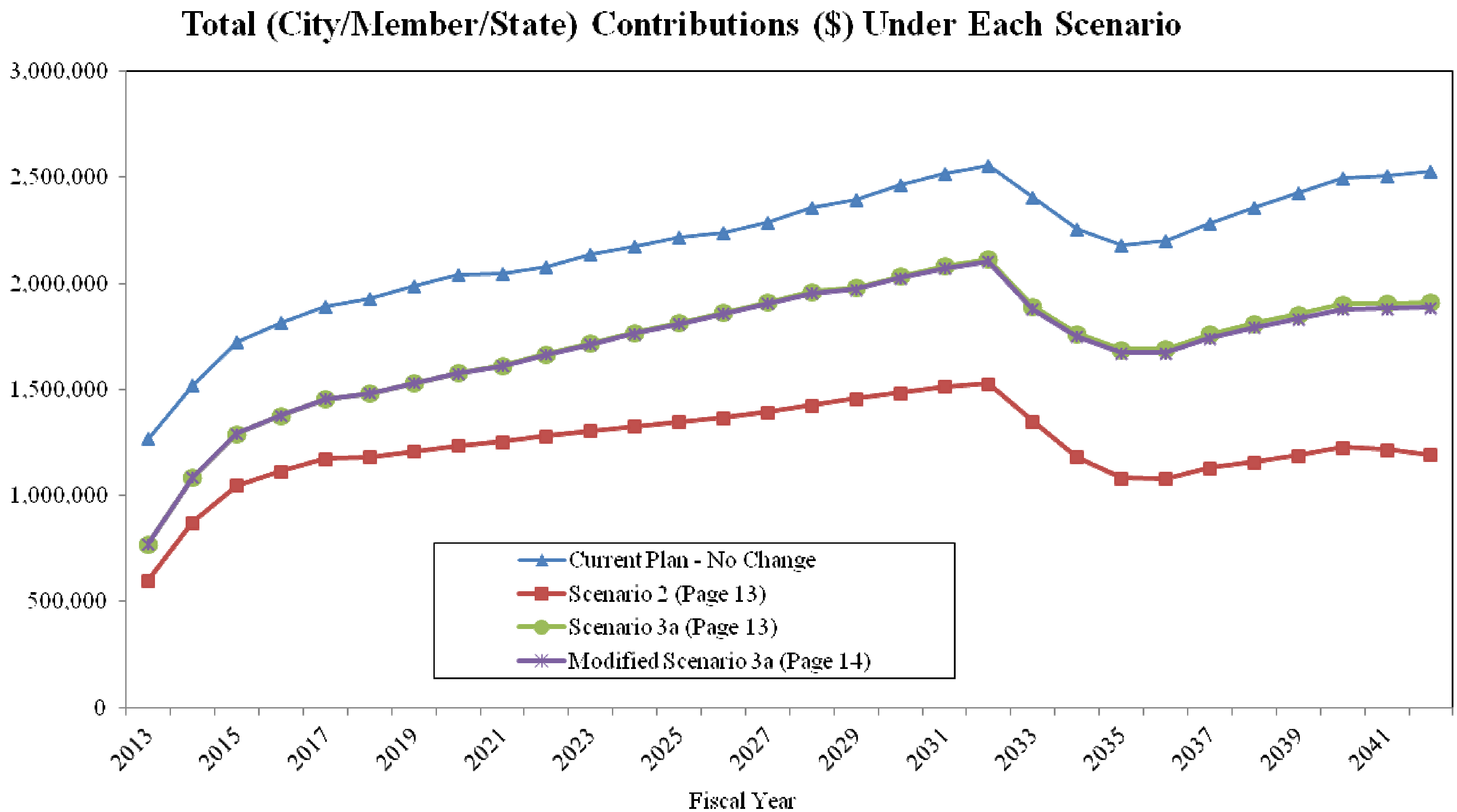
Possible DB Benefit Adjustments

- Freeze benefits
- Reduce benefit multiplier
- Increase final averaging period
- Delay normal retirement date
- Increase early retirement reduction
- Reduce or eliminate cost of living adjustment
- Decrease definition of pensionable earnings

Projected Cost:
Current Plan, FRS and DC Options



Projected Cost:
Current Plan and 3 Reduced DB Options



Reduced DB Options

- **Scenario 2:** Freeze + 1.6% multiplier, FRS retirement eligibility (age 60 or 33 years service) and 10 year Avg. Final Compensation
- **Scenario 3a:** Freeze + 2.75% multiplier, Ch. 185 retirement eligibility (age 52 with 25 years or age 55 with 10 years) and 5 year Avg. Final Compensation
- **Modified Scenario 3a:** Freeze + 3.0% multiplier with 80% benefit cap, Ch. 185 retirement eligibility (age 52 with 25 years or age 55 with 10 years) and 5 year Avg. Final Compensation

PENSION REFORM:
WHAT FLORIDA CITIES HAVE DONE

Pension Reform:
What Florida Cities Have Done

Ft. Lauderdale (2007) - General

- Closed general employee defined benefit pension plan
- Set up defined contribution plan for new hires
- 36 Florida cities have replaced defined benefit pension plans with defined contribution plans

Pension Reform: What Florida Cities Have Done

<u>Port Orange (2010) – Fire</u> [Implemented 9/25/12]

- Reduced wages by 6% (imposed in lieu of increase in employee pension contribution)
- Reduced pension benefits for current and future employees

➢ Normal retirement date – changed to age 52 with 25 yrs service or age 55 with 10 yrs service (was 20 and out)

➢ Reduced pensionable earnings (exclude overtime, incentive pay and specialty pay)

➢ Extended final averaging period from 3 to 5 years

➢ Reduced maximum benefit from 90% to 80%

➢ Reduced COLA

➢ Reduced DROP earnings

Pension Reform:
What Florida Cities Have Done

<u>Miami Beach (2010) – All Employees</u>

- Wage freeze
- Pension changes for current employees:

➢ Increased employee pension and health plan contributions by 2%

➢ 5 year final averaging period (phased in)

➢ Reduced pension benefits for new hires

Pension Reform:
What Florida Cities Have Done

Delray Beach (2010) – General Employees

- Final average comp period extended from 2 to 5 years
- Normal retirement date delayed to age 62 (was 60)
- Employee contributions increased from 2.5% to 3.05%
- Standard benefit changed to single life annuity (was 60% joint & survivor annuity)
- Line of duty disability benefit reduced from 75% to 60%

Pension Reform:
What Florida Cities Have Done

Miami (2010) – Pension Changes (All Employees)*

[Financial urgency declared – City Commission adopted wage and benefit reductions 8/31/10]:

- Later normal retirement age (to "Rule of 70" with min. age 50 from Rule of 64/68)
- 5 year average final compensation (was highest year)
- Reduce benefit formula for future service (to 3% from 3.5% after 15 yrs)
- Normal form of benefit: life and 10 years certain (PF); life annuity (General)
- $100,000 cap on benefits

* litigation pending

Pension Reform:
What Florida Cities Have Done

Palm Bay (2011) – Fire

- 3 year wage freeze
- Reduction in pension benefits for current employees:
  - ➢ Reduction in supplemental benefit (from $25 to $12 per month per year of future service)
- Reduction in pension benefits for future employees:
  - ➢ Reduced multiplier - 3.2% after 20 yrs (was 5% after 20 yrs)
  - ➢ 2% COLA deferred 6 yrs (was 3%)
  - ➢ Line of duty disability benefit - 66% (was 75%)
  - ➢ Stop/Restart – increased premium tax "frozen amt. from $437K to $825K (can be used each year to offset City contribution); also one-time transfer of $825K excess premium tax reserve to reduce city contribution

Pension Reform: What Florida Cities Have Done

<u>Coral Gables (2011) – General</u> [Settlement approved by union members and City Commission in July 2011]

•Pension benefits frozen; reduced benefits for future service

•Pension changes for <u>current and future</u> employees:

➢Reduced multiplier for future service (from 3.0 % to 2.25%)

➢Increase employee pension contribution by 5% (to 10%)

➢5 year final averaging period (phased in from 3 year average)

➢Delay retirement age to age 65 or Rule of 85 (from age 52 or Rule of 70)

➢Reduced disability benefits

•Future pension cost increases shared by City and employees

•City may establish DC plan in the future for new hires.

Pension Reform:
What Florida Cities Have Done

<u>Hollywood (2011) – All Employees</u> [City declared financial urgency; pension changes approved by referendum on 9/13/11]*

•Pension benefits frozen for <u>all</u> employees

•Pension changes for <u>current and future</u> employees:

➢Delayed normal retirement date (Police/Fire - age 55 w/10 yrs or age 52 w/25 yrs; General – age 65 or age 62 w/25yrs or age 60 w/30yrs)

➢Reduced benefit multiplier (2.5% - police/fire; 2.0% - general)

➢5 year final averaging period (now 3 years)

➢No COLA for future service

➢No DROP

* Litigation pending – police/fire

Pension Reform:
What Florida Cities Have Done

<u>Naples (2012) – Police</u> [Agreement with FOP ratified 10/11; pension changes implemented in March 2012]

•Pension changes for <u>current and future</u> employees:

➢Benefits frozen

➢Multiplier reduced from 3.63% to 3.0%

➢Final averaging period lengthened from 3 to 8 years

➢COLA eliminated (was 3% per year from age 55 to 62)

➢Salary reduced to exclude leave payouts

➢Normal retirement delayed for future employees to age 60 with 8 yrs service or 30 yrs service (was age 50 or 25 yrs service)

➢New DROP plan – 1.3% interest on DROP account

Pension Reform:
What Florida Cities Have Done

<u>Town of Palm Beach (2012) – All Employees</u>

- Pension benefits frozen
- Pension changes for current and future employees:
- ➢ "Hybrid Plan " - Defined contribution plan on top of DB plan
- ➢ Reduced multiplier for future service under DB Plan (to 1.25%)
- ➢ Delayed normal retirement date (from age 50 with 10 yrs service or 20 yrs service for police & fire, and age 55 or 30 yrs service for general; to age 65 for all employees (but DC plan distributions may begin earlier)
- ➢ Automatic joint & survivor annuity replaced with life annuity (member may purchase survivor benefit)
- ➢ No COLA
- ➢ Town has withdrawn from Ch. 175 & 185

Pension Reform:
What Florida Cities Have Done

<u>Sarasota (2011) – Police</u> [City Commission took final action to resolve impasse on 10/17/11; implemented July 2012]

•Pension changes for <u>current and future</u> employees:

➢5 year final averaging period (was 3 years)

➢Reduce COLA from 3.2% beginning one year after retirement to 1.0% beginning at age 65

➢Overtime pay included in pensionable earnings limited to 300 hours per year

➢Standard form of benefit: 10 years certain & life (was 67% automatic spouse survivor benefit for life of spouse)

➢Reduce DROP interest to 2.0% (was 6.5%)

Pension Reform: What Florida Cities Have Done

<u>**Coral Gables (2012) – Police**</u> [City Commission took final action to resolve impasse on 9/11/12]

•Pension changes for <u>current and future</u> employees:

➢5 year final averaging period (was 3 years)

➢Reduce multiplier to 2.5% after 10 years of service (was 3%)

➢Reduce definition of pensionable earnings to exclude all OT and leave payouts

➢Defer normal retirement date to age 55 w/10 years of service or 25 years of service regardless of age (was "Rule of 70")

➢Eliminate early retirement

2011 Florida Retirement System Changes

- 3% employee contribution eff. 7/1/11 (was zero)
- No COLA for service after 7/1/11 (was 3%)
- Delayed normal retirement age*
  - Regular: age 65 or 33 years* (was age 62 or 30 years)
  - Special Risk: age 60 or 30 years* (was age 55 or 25 yrs)
- Average final compensation: highest <u>8</u> years* (was high 5)
- 8 year vesting period* (was 6 years)
- DROP interest = 1.3% for members who enter DROP after 7/1/11 (was 6.5%)

*changes apply to members who first join FRS on or after 7/1/11

Florida Retirement System Employer Contribution Rates for 2011 & 2012

FRS Membership Class	Employer Contribution 2010 - 2011	Employer Contribution 2011 – 2012	Employer Contribution Beginning 7/1/12
Regular	10.77%	4.91%	5.18%
Special Risk	23.25%	14.1%	14.9%
Senior Management	14.57%	6.27%	6.30%

Above rates include the additional 1.14% health insurance subsidy contribution and administrative/education fee